canada development corporation annual report 1975


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Canada Development Corporation Annual Report 1975

The Corporation's Objectives

To develop and maintain strong, Canadian controlled and managed corporations in the private sector.

To widen the investment opportunities open to Canadians.

To operate profitably and in the best interests of all the shareholders.

Contents

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Front Cover: Pictured is a two-hundred pound piece of chalcopyrite, part of the 3.6 million tons of ore containing copper, lead, zinc, silver, cadmium and tin, which was mined last year by Texasgulf at Kidd Creek, near Timmins.

Opposite: Ore from Kidd Creek is crushed and moved 17 miles by rail to Texasgulf's concentrator and is pulverised in these rotating cylinders; concentrates are then obtained by flotation methods.

Back Cover: The open pit mine at Kidd Creek, as seen through a fish-eye lens from the 700-foot level.

Corporate Structure

Canada Development Corporation

Developing and maintaining strong Canadian controlled and managed corporations in the private sector.

Assets
$1,277.5 million

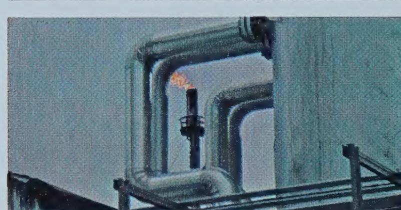
PETROCHEMICALS—Assets $602.6 million

Polysar Limited—100%
Manufacturers of rubber, latex, plastic and petrochemical products.

Petrosar Limited—60%
World-scale feedstocks refinery (under construction).

MINING—Assets $324.2 million

Texasgulf Inc.—30.2%
A producer of base metals, chemicals and oil and gas with worldwide production and exploration activities.



OIL & GAS—Assets $135.0 million

CDC Oil & Gas Limited—100%
Exploration and production of oil and gas in Western Canada.

OTHER—Assets $109.8 million

Cash and short-term investments held by CDC.

HEALTH CARE—Assets $89.8 million

Connlab Holdings Limited—100%
Research, manufacture and marketing of biological and pharmaceutical products worldwide.

VENTURE CAPITAL—Assets $12.3 million

Venturetek International Limited—32%
Innocan Investments Ltd.—40%
Ventures West Capital Ltd.—49%
Investors in a wide variety of business ventures at the conceptual or early development stage.

PIPELINES—Assets $3.8 million

Gas Arctic–Northwest Project Study Group
Consortium planning construction of natural gas pipeline from Mackenzie Delta and Alaska.

- *Asset values represent book values at December 31, 1975 without deduction of liabilities.*
- *Percentages represent CDC direct and indirect ownership position.*

Highlights

	1975	1974	% Increase (Decrease)
	(millions of dollars)		
Total revenue	**$484.1**	$464.9	4.1
Net earnings	**26.1**	59.0	(55.8)
Net earnings per common share	**$0.57**	$1.89	(69.8)
Total assets	**$1,277.5**	899.6	42.0
Working capital	**157.6**	128.9	22.3
Shareholders' equity	**707.8**	548.3	29.1
Shares outstanding (December 31)			
Common shares	**30,712,038**	26,766,989	
Class A preferred (par value $10)	**10,000,000**	10,000,000	
Class B preferred (par value $100)	**1,425,343**		
Return on common equity	**3.8%**	12.9%	

More than 20,000 Canadians became CDC shareholders in $145 million preferred share issue . . . the largest ever done in Canada.

Major initial investment made in petroleum industry with the $110 million acquisition of CDC Oil & Gas.

Lower earnings resulted from worldwide recession . . . Polysar contribution particularly affected.

Record amounts invested for future growth . . . capital expenditures were $192 million, research outlays $14 million.

Assets grew 42% to more than one and a quarter billion dollars.

Outlook for 1976 encouraging . . . improving earnings trend in last half of 1975 expected to continue.

Report of Directors

The CDC's mission of developing strong and profitable enterprises is a continuing and long-term one. Though the rewards can be great, they are neither easy nor immediate since planning, building and financing major projects can often take five years or more to accomplish. Careful long-term planning is essential, and one must avoid the tendency merely to extend existing circumstances in an unending straight line indefinitely into the future. At the same time, flexibility is required to adapt to continuously changing short-term conditions. Achievement of profitable development depends on having a balanced view of the near and long-term potential of the Canadian and world economies—and a persisting commitment to our basic mission.

When looked at in the focus of our long-term business plan, the year just ended was, we believe, one of accomplishment for CDC, despite the difficulties it posed for us—and for every other institution and individual in the industrialized world. Our shareholder base was broadened by our first public share issue; a major direct acquisition was made in the Canadian oil and gas industry; record amounts were spent for long-term investment projects; the underlying earnings potential of the CDC group of companies was strengthened; and the earnings decline which had begun in late 1974 was strongly reversed by year-end.

It was nonetheless a year which proved to be even more unfavourable for the world and Canadian economies than we foresaw when writing last year's Annual Report. Inflation in most countries, including Canada, was not brought down to reasonable levels and, thus, the recession was sharper and unemployment higher than they might otherwise have been. CDC was, of course, affected by these developments—net income was down to \$26.1 million, or under half of 1974's record level of \$59.0 million. Net income per common share was \$0.57 compared to \$1.89 in the preceding year, and the rate of return on common shareholders' equity declined to an unsatisfactory 3.8% from 12.9%.

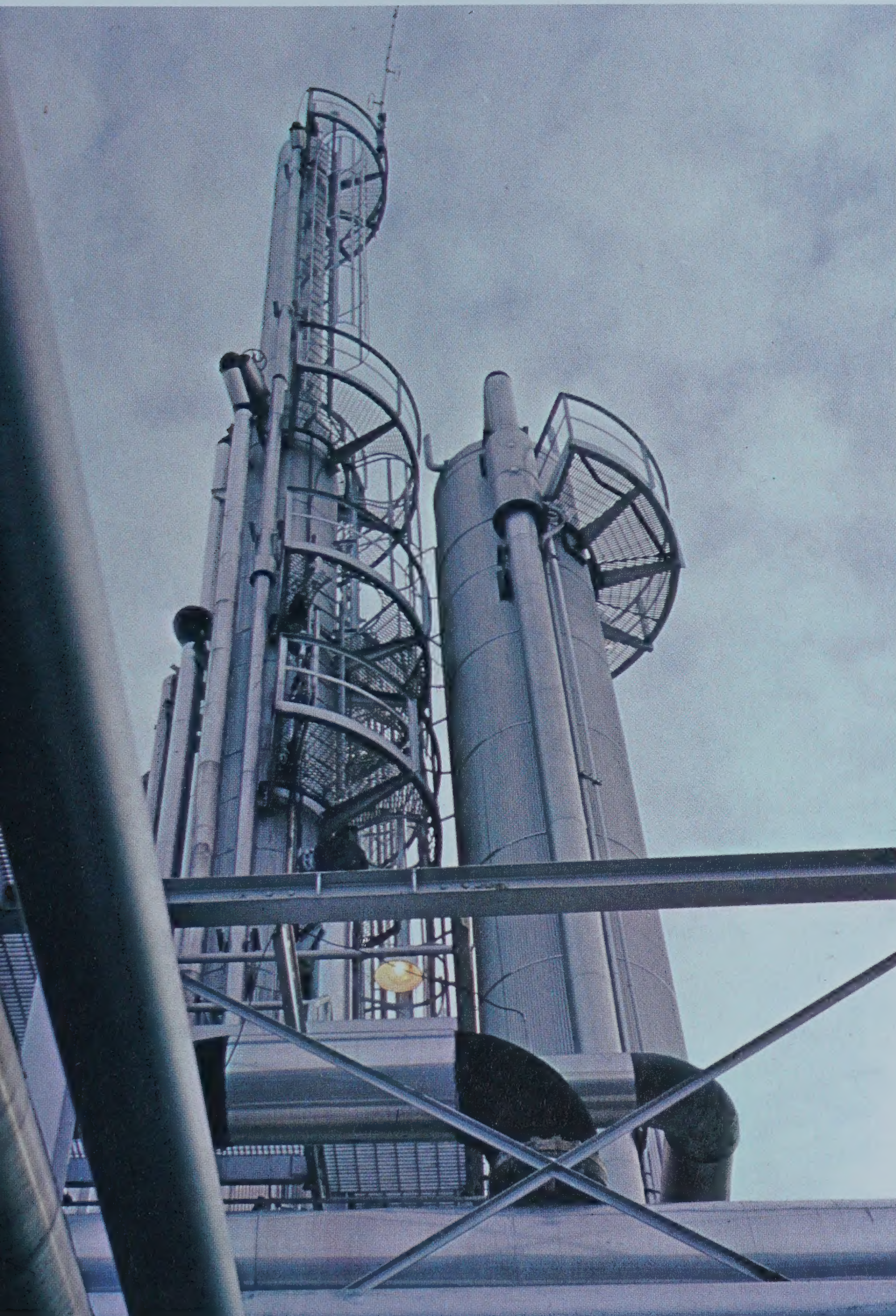
However, the trend of income during the year was encouraging: from its low point of \$4.1 million in the first three months, quarterly net income improved at an accelerating rate, and in the last quarter—at \$10.8 million—was significantly above the \$6.6 million earned in the last quarter of 1974.

Assets expanded once again in 1975, reflecting growth, acquisitions, and increased capital expenditures by our group of companies. Total assets at year-end were more than one and a quarter billion dollars compared with just under \$900 million a year earlier. Although markets were weak and over-capacity existed in many sectors in 1975, expansion and development were continued with a longer-term perspective in mind—to enable CDC to participate in, and profit from, the underlying trend of world economic growth.

Contributing to the growth in CDC's long-term assets in 1975 was the acquisition at year-end of CDC Oil & Gas Limited for \$102.5 million (subsequently increased to \$110.8 million to adjust for additional net current assets acquired). This company's producing properties and exploration lands formerly constituted the majority of the oil and gas assets of Tenneco Inc. in Canada. CDC Oil & Gas has significant production income and cashflow, a strong financial position, and an experienced management team. Late in the year and in the early part of 1976, CDC acquired for \$9.9 million a direct 20% interest in Petrosar Limited, the world-scale naphtha cracker and refinery being built in Sarnia, Ontario. A number of other smaller acquisitions were made by the CDC group in 1975.

During the year, we took a major step in financing the long-range growth of CDC with the offer to Canadians of \$145 million of convertible redeemable voting preferred shares with a bonus of common stock. This issue, the largest ever carried out entirely in Canada, was a milestone in CDC's progress towards the ultimate goal of Canadians becoming the direct owners of up to 90% of the Corporation's voting shares. As a result, almost one-third of the voting power is in the hands of more than 20,000 Canadians from coast to coast.

Although the CDC Oil & Gas acquisition used a large part of the share issue's proceeds, CDC itself ended the year in a strong financial position, holding net cash and short-term investments of some \$75.7 million. It is CDC's policy not to add unnecessarily to its own cash balances through large dividend payments from sub-



sidiary and associated companies. Instead it encourages those companies to retain the major part of their earnings to finance their own growth. Nevertheless, CDC maintains adequate reserves to meet its own dividend obligations, and unconsolidated retained earnings at year-end stood at $17.2 million, an increase of $6.3 million.

Despite the weak economy and cost-cutting measures, the expansion of CDC's activities in total maintained the group's employment at about 17,000 persons. In keeping with CDC's long-term goals, investment in the development of new products through research was continued and outlays amounted to $14.5 million; the bulk of this sum was spent in Canada.

Operating Review

Petrochemicals

The largest single reason for the change in the Corporation's consolidated net income in 1975 was that Polysar's contribution declined from $18.1 million in 1974 to a loss of $1.3 million after payment of preferred dividends to outside shareholders. The combined effect of inflation and recession on Polysar was severe, although performance has been increasingly favourable since the last three months of 1974, when the company recorded a loss of $6 million. In the last three months of 1975, Polysar earned a profit of $3 million. These improved results, which are continuing in 1976, reflect the revival of demand from the low point of the 1974-75 recession as well as the benefits of cost-cutting and other measures. Capital spending plans were reviewed with extra care, but no reduction was made in high-priority, long-range investment programmes. These expenditures increased to $39.1 million from $20.2 million a year ago, with the largest single item being $18.8 million spent on the construction of the $90 million world-scale styrene plant; in addition, $12 million was contributed by Polysar to the equity capital of the Petrosar project.

The Petrosar project was 27% complete at the end of 1975. However, as a result of inflationary cost developments, a possible delay of up to three months in completion, and forecast higher working capital requirements, the project is now expected to cost some $575 million rather than the $430 million estimated a year earlier. Neverthe-

This plant at Hussar, Alberta, is operated by CDC Oil & Gas and removes impurities from natural gas produced from nearby wells.

less, the project remains an attractive longer-term investment and every effort is being made to ensure that it is brought on stream at or below the current estimated level of costs.

Natural Resources

Texasgulf enjoyed the second best year in its history in 1975 despite weaknesses in its metal, chemical and fertilizer markets. Earnings totalled $103.2 million in 1975, equal to $3.37 a share, as against $147.3 million and $4.83 a share in 1974, and Texasgulf's contribution to our earnings thus declined by some $12.8 million. Texasgulf spent a record $238.7 million on capital expenditures in 1975 with the largest items being for the construction of its new soda ash plant in Wyoming, the expansion of facilities in Timmins, and additions to its phosphate fertilizer operation in North Carolina. In March 1976, Texasgulf announced that the new copper smelter and refinery at Timmins would be built in two units, with construction of the first unit proceeding immediately for completion in 1979; the second will be built later. Texasgulf continued and expanded its intensive exploration efforts during 1975, and one of its most interesting results was the discovery of an important copper-zinc-lead-silver deposit at Izok Lake in the Northwest Territories, 225 miles north of Yellowknife.

CDC Oil & Gas Limited, being acquired only on December 31, 1975, had no effect on CDC's earnings last year.

In April 1975, CDC gave an indication of provisional interest to subscribe for $100 million of equity securities of the Canadian Arctic Gas Pipeline project, subject to certain conditions. Because of delays in the regulatory process, consideration will be given to extending the timing conditions involved.

Health Care

We had expected that Connlab, our health care holding company, would contribute modestly to CDC's earnings in 1975, as compared with its small loss in 1974. However, despite a 21% increase in sales, results for this group were disappointing, almost entirely because of poor earnings at Connaught Laboratories, and Connlab's contribution was a loss of $2.0 million for the year. Sales of Connaught again increased, reaching $17.2 million, but costs of production, research, and quality control escalated even faster. Sales of Dumex and Omnimedic increased to $60.2 million and $4.4 million respectively from their year-earlier totals of $48.0 million and $3.5 million; the results of both companies showed significant improvement, although Omnimedic only became profitable in the last few months of the year. Raylo's research activities made a further modest contribution. Early in 1976, Connlab acquired a significant interest in Bio-Research Laboratories Limited of Montreal, world-renowned for its pharmacological and toxicological testing. In addition to continuing its work for clients around the world, this organization will aid in developing new pharmaceutical products for the Connlab group of companies. The Connaught and Connlab Boards were strengthened during the year with the appointments of Dr. Roger Gaudry, former President of the Science Council of Canada; Dr. Pierre R. Gendron, President of the Pulp & Paper Research Institute of Canada; and Dr. William A. Cochrane, President and Vice Chancellor of the University of Calgary. These gentlemen, together with Dr. John D. Hamilton of the University of Toronto, have been appointed to a Scientific Advisory Committee of Connaught and Connlab to advise us on research strategy, new product development, and larger-scale participation in the Canadian pharmaceutical industry.

Venture Capital and Other

CDC's three associated venture capital companies made five new investments in 1975, including a venture using earth satellite technology and a project designed to produce cattle feed from cellulose waste. However, the bulk of their activity was concentrated on the development of their existing companies, especially those in the fields of oceanography, electronics, and natural resources. A number of these companies are now contributing to earnings, as reported on pages 32 to 34. The contribution of the venture capital companies to CDC's consolidated results, at $0.8 million, was again small in 1975.

The Corporation's own earnings, before dividends and other income from the above companies but after deduction of operating expenses of $1.6 million, were $0.9 million, an improvement of $1.2 million from 1974, owing to higher net earnings on short-term investments.

Financial Resources

CDC's capital increased by $142.5 million from the proceeds of the Class B preferred share issue actually received during the year; a further $2.3 million is expected by June 1976 from outstanding instalment purchase plans. This plan was one of a number of innovations, including an extensive advertising programme, introduced in connection with the share issue to insure that the maximum number of Canadians had an opportunity to participate in the offering. Thus, although it did not prove possible to have chartered bank branches involved in the distribution, as had been hoped earlier, we were successful in obtaining some 21,000 shareholders across Canada. This is a promising beginning and we will continue to try to broaden our shareholder base. In order to serve our new shareowners efficiently, we carried out a comprehensive but anonymous survey using University of British Columbia personnel and computer facilities. We take this opportunity to thank the more than 5,000 shareholders who have replied to date.

As noted above, CDC ended the year in a strong financial position. The Corporation itself is free of debt and—as stressed in earlier Reports—intends to maintain a strong financial position consistent with its role as an equity investor in longer-term development projects. Consolidated shareholders' equity amounted to $708 million at year-end, a gain of $160 million in the preceding twelve months, as all earnings on the common shares were reinvested. The Corporation's unconsolidated financial position is equally strong, as shown on page 23.

As in past years, a number of our associated and subsidiary companies arranged outside financing last year. Polysar financed its capital expenditure requirements for 1975 and most of 1976 with an issue to the Canadian public of retractable preferred shares, a Eurocurrency issue of debentures

and bank term financing. Texasgulf carried out the first public financing in its history late in 1975 with the issue in New York of $125 million of long-term debentures. Petrosar began negotiating an addition to its term and operating loans with the consortium of Canadian banks which had provided its initial debt financing, and PoP Shoppes International Inc., a subsidiary of Venturetek International Limited, carried out a public issue of treasury and secondary common shares. No CDC investment or additional guarantees were involved in these financings.

Directors, Officers, and Staff

We are happy to report that Mrs. Arthur C. Pigott of Ottawa, President of Morrison, Lamothe Foods Limited, and an active participant in a variety of public and community organizations, agreed to join our Board in 1975. We were also pleased to welcome as an ex officio Director, Mr. O.G. Stoner, who became Deputy Minister of the Federal Department of Industry, Trade and Commerce during the year.

Our share issue, a difficult economic year, and the acquisition of CDC Oil & Gas combined to add to the already heavy burden of work and travel imposed on our small staff. They devoted themselves to accomplishing their varied tasks at the high level of excellence and creativity we have now come to expect from them. On your behalf, we take this opportunity to express our warmest appreciation and thanks.

Economic Outlook

We expect 1976 to be a relatively favourable year for the Canadian and world economies, and thus a better year for CDC and its group of companies. Economic expansion, which resumed in North America in mid-1975, is likely to continue and become more broadly based as the year unfolds. A period of moderate and prolonged economic upswing is possible provided that governments around the world resist the temptation to overstimulate activity by overexpanding public sector spending, budgetary deficits, and the money supply. In this regard, the Federal Government's White Paper of October 1975 noted that it

Careful research at Connaught Laboratories in Toronto is essential to the development of new and improved vaccines, sera, and toxoids.

was desirable that "the trend of total spending by all governments in Canada should not rise more quickly than the trend of the gross national product". The White Paper also speaks of the Government's determination, in concert with other governments, "to move to a position where both the burden of taxation and the need for borrowing can be reduced".

We are therefore optimistic that the environment in 1976 can be a steadily improving one, although all the excesses and distortions created by inflation will by no means have been fully wrung out of the system. Accordingly, inflation and unemployment will still be higher, and investment and productivity in certain sectors will still be lower, than is desirable and necessary in the long run if we are to achieve balanced and sustainable growth. In Canada, the complicated anti-inflation control apparatus may reduce economic advances somewhat by adding to consumer and business uncertainty. On balance, however, we are confident that Canada can have a reasonably good year.

CDC in 1976

Reflecting this confidence, the CDC group of companies is planning to invest a record sum in new capital facilities, with the largest amounts being devoted to further expansion in petrochemicals, mining and mineral processing, oil and gas, and health care. Without continuing investment, the capacity will not be in place to meet future demands, to avoid inflation-creating shortages, and to provide improved living standards. Because investment capital is likely to remain scarce, the group is making every effort to ensure that capital projects are efficiently conceived and carefully controlled to minimize the risk of inflationary cost overruns.

CDC itself does not expect to be active in the acquisition field before the turn of the year. Having acquired CDC Oil & Gas at the end of 1975, and having active expansion plans in all the group's companies, we intend to concentrate on the development of those companies and on acquisitions for 1977 and beyond. As CDC entered 1976 in a strong financial position, which should be further strengthened by year-end, we do not expect the Corporation itself to do any financing this year. However—as in 1975—some of our subsidiaries and affiliated companies will be raising funds on their own.

It is always hazardous to comment on the earnings outlook for a diversified company such as CDC—particularly when the effects of price and wage controls are added to an already rapidly changing economic environment. However, we believe that 1976 will show much better earnings than those of 1975. Indeed, this would be so if the earnings pace in the last quarter of 1975 were merely maintained instead of being further improved upon as we expect.

A moderate and continuing economic recovery, coupled with the effective cost control programme upon which Polysar embarked last year, should lead to a vigorous recovery of that company's earnings. There should be also an increase in the sales volume and price of most Texasgulf's metal products while demand for its fertilizer and chemical products should improve. The earnings outlook for CDC Oil & Gas in 1976 is favourable and attention will be concentrated on expanding its exploration and acquisition activities. Despite the poor earnings of Connaught in 1975, expanded sales of its existing products and the launching of several new ones—together with close attention to costs—should lead to a more satisfactory year in 1976; the pharmaceutical elements in the Connlab group should further improve their results, and we plan to develop a strategy for significantly expanding this activity by the latter part of the year. Our venture capital companies' contribution is expected to continue to be relatively minor, although several of their companies, particularly those connected with the application of electronics through communications and word processing, are introducing new products which should contribute to earnings in 1977 and beyond.

We believe 1976 can be the gateway year to a long period of moderate and sustained economic expansion and improved living standards from which all Canadians can benefit. Provided that governments avoid overly stimulative policies, there is every reason to be optimistic for the future of Canada and of corporations such as the CDC which are determined to contribute to its growth.

Respectfully submitted on behalf of the Board,

A. John Ellis,
Chairman of the Board

H. Anthony Hampson,
President and Chief Executive Officer
March 31, 1976.

The massive facilities at Kidd Creek were built as a result of a discovery by Texasgulf's exploration department, which is performing exploration work in virtually every province and territory.

Planning is an integral part of all CDC associated companies. Future development, growth, and profitability depend on thorough study of new projects.

Consolidated Financial Statements

Year Ended December 31, 1975

Canada Development Corporation
and subsidiary companies

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation and subsidiary companies is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation
These consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies (note 18).

Foreign Exchange
Consolidation of non-Canadian current assets and liabilities is made at rates of exchange on December 31; all other assets, applicable depreciation and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expenses, except depreciation, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Inventories
Inventories are valued at the lower of cost and net realizable value.

Long-Term Investments
The Corporation and its subsidiaries use the equity method of accounting for investments in companies over which they have effective control or significant influence. Other long-term investments, amounting to $9 million, are accounted for by the cost method.

Goodwill
The policy of the Corporation and its subsidiaries is to record goodwill arising on acquisitions to the end of 1973 as an asset without amortization. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written off against income. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years.

Deferred Charges, Patents and Technology
Pre-production expenses incurred in connection with major new production facilities of Polysar are amortized on the straight-line basis over a period generally not exceeding five years from commencement of production. Pre-production expenses being incurred by Petrosar will be amortized after production commences. Other deferred charges are charged against income in the periods to which they are applicable. Patents and technology are amortized on the straight-line method over their estimated economic useful life, generally not in excess of five years.

Expenses of Preferred Share Issues
The policy of the Corporation and its subsidiaries is to amortize the cost of raising equity capital to retained earnings. The period of amortization is dependent upon the terms and conditions of each issue.

Depreciation
Depreciation of buildings and equipment is based on the estimated useful life of the assets from commencement of production, calculated on the straight-line or diminishing balance method as considered most appropriate for each company.

Research
Research expenditures are charged against operations as incurred, net of government grants related thereto.

Income Taxes
Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation and its subsidiaries do not give recognition to the potential tax benefit of losses until these benefits are realized. These recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes.

Consolidated Balance Sheet

December 31, 1975
Canada Development Corporation
(Established by the Canada Development Corporation Act)
and subsidiary companies

Assets

	1975	1974
Current Assets	*(thousands of dollars)*	
Cash	**$ 16,017**	$ 2,995
Short-term investments, at cost which approximates market value	**109,050**	62,832
Accounts receivable less allowance for doubtful accounts	**125,807**	111,366
Inventories (note 1)	**104,523**	118,807
Real estate investments (note 2)	**18,911**	21,220
Prepaid expenses	**4,122**	4,591
	378,430	321,811
Investments (note 3)	**354,581**	332,354
Fixed Assets (notes 4 and 13)	**502,792**	216,271
Other Assets (note 5)	**41,734**	29,155
	$1,277,537	$899,591

Approved on behalf of the Board,

H. A. HAMPSON, *Director*

F. W. SELLERS, *Director*

Liabilities

	1975	1974
Current Liabilities	*(thousands of dollars)*	
Short-term loans	**$ 95,198**	$ 97,484
Accounts payable and accrued liabilities	**95,674**	74,752
Dividends payable	**4,280**	1,437
Income and other taxes payable	**15,222**	3,575
Long-term debt due within one year	**10,416**	15,672
	220,790	192,920
Long-Term Debt (note 6)	**250,358**	137,439
Deferred Income Taxes	**25,337**	9,744
Interest of Minority Shareholders in Subsidiaries (note 7)	**73,218**	11,172
	569,703	351,275

Shareholders' Equity

Capital Stock (note 8)	**564,563**	422,000
Retained Earnings	**91,699**	74,744
Excess of Book Value over Cost at Date of Acquisition of Subsidiary (note 9)	**51,572**	51,572
	707,834	548,316
	$1,277,537	$899,591

Auditors' Report

To the Shareholders of
Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Vancouver, Canada
March 22, 1976

Consolidated Statements of Income, Retained Earnings and Changes in Financial Position

Year Ended December 31, 1975

Canada Development Corporation
and subsidiary companies

Consolidated Statement of Income

	1975	1974
	(thousands of dollars)	
Revenue		
Sales of products and services	**$469,605**	$454,204
Other income	**14,467**	10,678
	484,072	464,882
Expenses		
Cost of sales	**373,170**	336,701
Selling, administration and research	**81,128**	69,209
Interest on long-term debt	**10,255**	10,994
Other interest	**8,731**	8,180
	473,284	425,084
	10,788	39,798
Equity in earnings of other companies (notes 3 and 12)	**28,430**	41,522
Income before income taxes and other items	**39,218**	81,320
Income taxes	**8,358**	8,472
Minority interest in subsidiary companies	**3,285**	175
	11,643	8,647
	27,575	72,673
Loss on discontinued business (note 10)	**1,525**	8,802
Income before extraordinary item	**26,050**	63,871
Extraordinary item (note 11)		4,900
Net income for the year (note 12)	**$ 26,050**	$ 58,971
Earnings per share		
Income before extraordinary item	**$ 0.57**	$ 2.06
Extraordinary item		$ 0.17
Net income for the year	**$ 0.57**	$ 1.89

Consolidated Statement of Retained Earnings

	1975	1974
	(thousands of dollars)	
Retained earnings at beginning of year	**$ 74,744**	$ 20,858
Net income for the year	**26,050**	58,971
	100,794	79,829
Dividends on preferred shares	**8,592**	4,750
Amortization of expenses of preferred share issues	**503**	335
	9,095	5,085
Retained earnings at end of year	**$ 91,699**	$ 74,744

Consolidated Statement of Changes in Financial Position

	1975	1974
	(thousands of dollars)	
Working capital derived from		
Operations		
Income before extraordinary item	**$ 26,050**	$ 63,871
Items not involving working capital		
Depreciation	**22,535**	21,875
Amortization	**3,014**	2,054
Increase in equity in other companies	**(16,700)**	(32,423)
Deferred income taxes	**1,489**	2,578
Minority interest	**3,285**	175
	39,673	58,130
Issues of shares and rights to shares	**142,563**	150,000
Issues of long-term debt	**122,492**	29,202
Investment by minority shareholders	**61,967**	5,937
Reclassification of real estate investments		6,537
	366,695	249,806
Working capital applied to		
Investment in oil and gas properties (net of deferred income taxes)	**102,294**	
Additions to other fixed assets	**192,658**	74,268
Increase in investment in other companies	**5,527**	1,989
Dividends on preferred shares	**8,592**	4,750
Reduction of long-term debt	**9,573**	14,566
Expenses of preferred share issues	**8,129**	335
Additions to other assets	**7,967**	1,419
Dividends to minority shareholders	**3,206**	
	337,946	97,327
Increase in working capital	**28,749**	152,479
Working capital (deficiency) at beginning of year	**128,891**	(23,588)
Working capital at end of year	**$157,640**	$128,891

Notes to Consolidated Financial Statements

Year Ended December 31, 1975

Canada Development Corporation
and subsidiary companies

1. Inventories

	1975	1974
	(thousands of dollars)	
Finished goods	**$ 56,053**	$ 63,789
Raw materials and work in progress	**32,796**	40,479
Operating and maintenance supplies	**15,674**	14,539
	$104,523	$118,807

2. Real Estate Investments

Real estate investments consist of all assets of the building systems division of Polysar net of related mortgages of $4.7 million at December 31, 1975 and $4.1 million at December 31, 1974. As the disposal of these assets is in progress, they have been classified as current assets.

The land included in these assets is valued at cost including related carrying charges while the apartment buildings, townhouses, modular housing units and manufacturing facilities are stated at estimated net realizable value, which is lower than cost.

3. Investments

	1975	1974
	(thousands of dollars)	
Texasgulf Inc.	**$324,189**	$307,873
Other	**30,392**	24,481
	$354,581	$332,354

(a) The Corporation, through a wholly-owned subsidiary, owns 9,259,720 (30.2%) of the outstanding common shares of Texasgulf. The quoted market value of the Texasgulf shares at December 31, 1975 was $262 million ($28.375 per share) which, because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(b) The excess of cost of the investment in Texasgulf over the Corporation's equity in the net book value of the underlying assets of Texasgulf at the dates of acquisition of the shares amounted to $143 million. The Corporation does not consider as a practical matter that there is any reason to expect the value of its investment to decline with time. However, based on generally accepted accounting principles, this excess has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis over a period of 40 years.

The Corporation's equity in earnings of Texasgulf which is included in "Equity in earnings of other companies" in the consolidated statement of income has therefore been computed as follows:

	1975	1974
	(thousands of dollars)	
Share of net income of Texasgulf	**$31,174**	$43,955
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf at dates of acquisition of shares	**3,574**	3,574
Equity in earnings of Texasgulf	**$27,600**	$40,381

(c) Included in other investments is $3.8 million which the Corporation has paid to the Gas Arctic-Northwest Project Study Group, a consortium of companies proposing the construction of a large-diameter gas pipeline from the Mackenzie Delta and the north slope of Alaska to markets in Canada and the United States. If the necessary approvals are obtained and the project proves feasible, the Corporation's investment may be converted to either an equity or debt interest in a company formed to construct the pipeline. If for any reason all or part of the value of this investment becomes permanently impaired, it will be written off as appropriate.

4. Fixed Assets

	1975	1974
	(thousands of dollars)	
Land, buildings and equipment, at cost	**$635,842**	$444,474
Less accumulated depreciation	**249,448**	228,203
	386,394	216,271
Oil and gas properties (note 13)	**116,398**	
	$502,792	$216,271

5. Other Assets

	1975	1974
	(thousands of dollars)	
Long-term receivables	**$ 9,210**	$ 4,475
Deferred charges, patents and technology	**6,247**	6,022
Goodwill	**18,651**	18,658
Unamortized expenses of preferred share issues	**7,626**	
	$41,734	$29,155

6. Long-Term Debt

	1975	1974
	(thousands of dollars)	
Petrosar Limited		
Loans repayable		
In United States dollars (U.S. $103,800,000) during the years 1979 to 1988 bearing interest at rates varying from 120% to 122.5% of the average prime rate of specified New York banks until 1985 and thereafter at rates to be agreed upon. Of this loan, 55%, amounting to $57,634,000 at December 31, 1975, is guaranteed by minority shareholders	**$104,825**	$ 22,832
In Canadian dollars during the years 1979 to 1988 bearing interest at .75% above the Canadian prime rate until 1985 and thereafter at rates to be agreed upon. Of this loan, 55%, amounting to $20,500,000 at December 31, 1975, is guaranteed by minority shareholders	**37,275**	5,250
	142,100	28,082
Polysar Limited		
Debentures		
In Canadian dollars		
Sinking fund debentures Series A bearing interest at 7.5% maturing November 1, 1987	**12,300**	13,000
Sinking fund debentures Series B bearing interest at 9% maturing November 15, 1993	**35,000**	35,000
Loans repayable		
In French francs (Fr. 12,500,000) during the years 1976 to 1980 bearing interest at rates varying from 7.25% to 9.25%	**2,629**	3,409
In Belgian francs (Fr. 100,000,000) during the years 1976 to 1977 bearing interest at 6.5% and secured by a mortgage on certain land and buildings	**2,366**	3,535
In Belgian francs (Fr. 325,000,000) under lease arrangements during the years 1976 to 1992 bearing interest at 7.88% and 9.86%	**8,275**	10,735
In Swiss francs (Fr. 25,000,000) due 1981 with interest at 7.5%	**6,244**	8,009
In German marks (DM 54,012,000) during the years 1976 to 2004 bearing interest at rates varying from 2.5% to 12.25%	**20,047**	20,959
In United States dollars (U.S. $9,363,000) under lease arrangements during the years 1976 to 1985 bearing interest at 9.75%	**9,606**	10,229
In United States dollars (U.S. $4,418,000) during the years 1976 to 1989 bearing interest at rates varying from 5% to 13%, secured by mortgages on certain fixed assets	**4,493**	5,383
Other	**2,456**	3,264
	103,416	113,523
Connlab Holdings Limited		
Loans repayable		
In Canadian dollars during the years 1979 to 1988 bearing interest at 1% above prime lending rate established by the lender, a Canadian bank, and secured by a floating charge on certain assets	**2,800**	2,800
In Swiss francs (Fr. 16,650,485) during the years 1977 to 1983 bearing interest at .5% above the London Interbank Eurodollar market rate, but fixed at 4.81% until April 1976	**6,198**	6,198
In Danish kroner (Kr. 16,008,300) during the years 1976 to 1985 bearing interest at 10% and secured by a mortgage on certain land	**2,673**	
In Danish kroner (Kr. 10,000,000) during the years 1976 to 1985 bearing interest at 1% above the Danish National Bank's lending rate and secured by a mortgage on certain land	**1,730**	
Other	**1,857**	2,508
	15,258	11,506
	260,774	153,111
Less portion of long-term debt due within one year included in current liabilities	**10,416**	15,672
	$250,358	$137,439

Notes to Consolidated Financial Statements
(continued)

6. Long-Term Debt (continued)

Long-term debt payable in foreign currency would increase by $4.8 million if converted into Canadian dollars on the basis of exchange rates at December 31, 1975.

Sinking fund requirements and the long-term debt due in each of the next five years are as follows:

1976 — $10.4 million; 1977 — $23.4 million; 1978 — $7.6 million;
1979 — $29.0 million; 1980 — $36.2 million.

In December 1975, Polysar agreed to sell U.S. $30 million, 10% debenture Series C due January 15, 1982. The net proceeds of approximately U.S. $29.2 million were received in January 1976.

7. Interest of Minority Shareholders in Subsidiaries

Included in the minority interest is $50 million of 8.4% cumulative redeemable first preferred shares of Polysar. During the 30-day period ending March 31, 1982, Polysar is required to invite tenders at $25 per share from the holders of these shares and to purchase on April 1, 1982 the shares so tendered.

8. Capital Stock

(a) Authorized

Preferred

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common

200,000,000 shares without par value

	1975	1974
	(thousands of dollars)	
Issued		
Preferred		
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	**$100,000**	$100,000
1,425,343 8% cumulative, redeemable, convertible, voting Class B shares of $100 each	**142,534**	
Common		
30,712,038 shares (1974 — 29,766,989 shares)	**322,029**	312,000
To be issued		
945,001 common shares		10,000
	$564,563	$422,000

The Class A preferred shares are redeemable on or after March 5, 1979 at the option of either the Corporation or any holder at par plus all accrued and unpaid dividends.

The Class B preferred shares are redeemable at the request of the holder from October 2, 1980 to December 31, 1980 and from October 2, 1985 to October 1, 1986, at par plus all accrued and unpaid dividends. They are also redeemable at the option of the Corporation, commencing October 2, 1980 at a price of $105 per share, reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share, plus in all cases accrued and unpaid dividends.

Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to each holder of record on October 1, 1980, and the second to each holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of common shares to one vote per share.

8. Capital Stock (continued)

(b) Issued during the year

Preferred shares

On October 1, 1975, the Corporation issued 1,416,644 Class B preferred shares for cash of $141,664,400. The Corporation subsequently issued a further 8,703 Class B preferred shares, subscribed for under instalment purchase plans, for cash of $870,300.

Common shares

On April 3, 1975, 945,001 common shares were issued to the Government of Canada in payment of $10 million owed by the Corporation as final consideration for the purchase of Polysar.

On October 1, 1975, the Corporation issued rights to receive the bonus common shares described in (a) above for cash of $29,000.

During the last quarter of 1975, 48 common shares were issued on conversion of four Class B preferred shares.

(c) Subscriptions outstanding

At December 31, 1975, the administrator of the instalment purchase plans held subscriptions outstanding for an additional 23,160 Class B preferred shares; in accordance with the plan, the administrator is purchasing on behalf of the subscribers the required Class B preferred shares on a monthly basis from January to June 1976.

(d) Common shares reserved

At December 31, 1975, 14,253,430 common shares were reserved for issue upon the conversion of the Class B preferred shares outstanding as at that date. A further 2,850,686 common shares were reserved for issue pursuant to the bonus common share rights. In addition, the number of common shares reserved for issue upon conversion is automatically increased by ten shares and the number of common shares reserved for issue pursuant to bonus common share rights is increased by two shares for each Class B preferred share purchased by the administrator of the instalment purchase plans in 1976.

9. Excess of Book Value over Cost at Date of Acquisition of Subsidiary

The excess of book value over cost at the date of acquisition of Polysar amounts to $51.5 million. The Corporation does not consider it appropriate to apply this amount against the book value of Polysar's fixed assets since this approach would cause a material understatement of fixed asset values. Accordingly, the Corporation has recorded fixed assets at their estimated fair values, and depreciation is based on these values rather than on the substantially lower values that would have resulted if the amount had been applied against Polysar's fixed assets. Dependent upon such factors as sale of the assets or increases in their earning power, this amount will be transferred directly to retained earnings.

10. Loss on Discontinued Business

Operating losses of the building systems division of Polysar have been presented as a loss on discontinued business in 1975 and the 1974 statement of income has been reclassified accordingly.

11. Extraordinary Item

The 1974 extraordinary item represents a write-down of the manufacturing facilities of Polysar's building systems division to estimated net realizable value and a provision for costs attendant upon the disposal of the assets of this division.

12. Net Income for the Year

The contribution to net income of the Corporation is as follows:

	1975			1974		
	Sales	Other Income	Net Income	Sales	Other Income	Net Income
	(thousands of dollars)			*(thousands of dollars)*		
Polysar	**$387,915**	**$ 5,222**	**$ (1,288)**	$386,796	$ 3,842	$18,071
Connlab	**81,690**	**1,859**	**(1,964)**	67,408	2,021	(258)
Canada Development Corporation		**7,386**	**872**		4,815	(364)
Equity in earnings of other companies:						
Texasgulf			**27,600**			40,381
Venture capital			**830**			1,141
	$469,605	**$14,467**	**$26,050**	$454,204	$10,678	$58,971

Other income includes interest on short-term investments of $9.9 million in 1975 and $6.3 million in 1974.

Notes to Consolidated Financial Statements

(continued)

13. Acquisitions

On December 31, 1975, the Corporation acquired all the outstanding shares of Tenneco Oil & Minerals, Ltd. (subsequently renamed CDC Oil & Gas Limited), a subsidiary of Tenneco Inc., together with the Canadian oil and gas properties of two other subsidiaries of Tenneco Inc.. $102.5 million was payable on December 31, 1975, and a balance of $8.3 million, which relates to additional working capital acquired, is payable on July 30, 1976, for a total cost of $110.8 million.

The acquisition has been accounted for by the purchase method, and the assets acquired and liabilities assumed are included in the consolidated balance sheet of the Corporation as at December 31, 1975, as follows:

	(thousands of dollars)	
Oil and gas properties	$116,398	
Less deferred income taxes	14,104	$102,294
Current assets	23,306	
Less current liabilities	14,780	8,526
		$110,820

As the acquisition occurred at the year-end, results of operations for 1975 are not included in these statements.

14. Commitments

(a) The Petrosar project is scheduled for completion in 1977, and the estimated cost including financing, start-up and working capital requirements is expected to approximate $575 million.

The Corporation and its subsidiary, Polysar, hold 60% of the common shares of Petrosar at a total cost of $30 million, of which $3.9 million was invested in January 1976.

A further investment of approximately $39 million in subordinated debentures of Petrosar is expected to be made by Polysar. The Corporation has agreed to purchase $15 million of shares or subordinated debentures of Polysar to assist Polysar in making this investment in Petrosar.

The shareholders of Petrosar, other than the Corporation, have undertaken to make additional funds available to Petrosar to the extent necessary to complete the project; Polysar's share is 48%.

The Corporation has guaranteed certain of Polysar's obligations under the term bank loan arranged by Petrosar, principally regarding completion of the project. The amount of the guarantee may vary but is limited to a maximum of $75 million.

(b) At December 31, 1975 subsidiaries other than Petrosar were committed to spend approximately $55 million for the acquisition of capital assets.

15. Contingencies

Polysar is or may become a defendant with others in several legal actions claiming an aggregate of $6 million in respect of product liability. The claims are being defended by, or have been referred to, the Company's product liability insurers. It is the opinion of Polysar's management that these claims will not be sustained.

16. Anti-Inflation Act and Regulations

The Corporation and certain of its subsidiary and associated companies in Canada are subject to the Anti-Inflation Act and Regulations. The Act provides as from October 14, 1975 a restraint on prices, profit margins, compensation to employees and dividends. The legislation does not affect dividends expected to be paid by the Corporation on its Class A or Class B preferred shares during 1976.

The Corporation has followed a policy of reinvesting earnings and dividends on common shares have not been paid to date. In any event, the formula required by the Act would limit common dividends to approximately $9 million in the year ending October 13, 1976.

17. Remuneration of Directors and Officers

	1975	1974
Number of directors	**21**	21
Number of officers	**7**	7
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$103,625**	$ 79,950
Aggregate remuneration of directors as directors of subsidiary companies	**4,125**	4,400
Aggregate remuneration of officers as officers of the Corporation	**385,625**	310,640

Officers of the Corporation received no remuneration from subsidiary companies

18. Consolidated Subsidiary Companies

CDC Nederland B.V.

CDC Oil & Gas Limited

Connlab Holdings Limited

Analco Inc.
Canada Pharmacal Co. Limited
Canada Pharmacal Co. (1975) Limited
The Canada Serum Company Limited
Comex Nederland B.V.
Connaught Biologics Limited
Connaught Laboratories Limited
Connlab do Brasil Industria e Comercio Limitada
OY Dumex AB, Helsinki
Dumex Australia (Pty.) Ltd., Melbourne
Dumex B.V. Haag
A/S Dumex (Dumex Ltd.), Copenhagen
Dumex GmbH, Hamburg
Dumex Lakemedel AB, Halsingborg
Dumex Ltd., Accra
A/S Dumex, Norway
Dumex (Pty.) Ltd., Johannesburg
Dumex SPA, Genoa
Nordic Pharmaceutical Company Ltd.
Nordic Pharmaceuticals Limited
Octo Laboratory Limited
Omnimedic Inc.
R. & L. Molecular Research Ltd.
Raylo Chemicals Limited
Spabec Ltée

Petrosar Limited

Polysar Limited

Bellaplast GmbH
Bellaplast Nederland B.V.
Com-Share A.G.
Com-Share B.V.
Com-Share International B.V.
Com-Share Limited
Com-Share Limited (U.K.)
Com-Share S.A. (Belgium)
Computer Sharing of Canada Limited
Distribuidora Adanac S.A.
General Plastics Company Limited
Genplac Limited
Kayson-Mammoth Limited
Komfortplast GmbH
M.K.W. Corporation
Mammoth Plastics Inc.
Nippon Polymers Company Limited
Polcrete Properties Incorporated
Polymer Corporation Canada Limited
Polysar Australia Pty Ltd.
Polysar Belgium N.V.
Polysar (Cayman) Ltd.
Polysar de Venezuela S.A.
Polysar Deutschland GmbH
Polysar do Brasil Produtos Quimicos Ltda.
Polysar Europa S.A.
Polysar France S.A.
Polysar GmbH
Polysar Handelmaatschappij B.V.
Polysar Incorporated
Polysar International S.A.
Polysar Italiana S.P.A.
Polysar Latex Inc.
Polysar Nederland B.V.
Polysar Plastics Inc.
Polysar Plastics Limited
Polysar Rubber Services Inc.
Polysar Skandinaviska A.B.
Polysar Technical Service Centre N.V.
Polysar (U.K.) Limited
Polysar United States Incorporated
Société de Latex S.A.
Société Française Polysar
Solar Chemical Corporation
Synthetic Elastomers Development S.A.
Trent Rubber Services Limited

Corporate Philosophy

To achieve the Corporation's objectives, CDC's Directors have determined that it should be an equity investor in strong, profitable enterprises with high growth potential. Directly, or through subsidiaries, CDC's policy is to put special emphasis on large, longer-range development projects, particularly those involving upgrading of resources, a high technological base, or good potential for building a Canadian-controlled presence in international markets. Such a presence is often necessary if Canada's corporations are to scale up their operations to a larger and more efficient size. This process encourages the development of managerial, technical and research talents of superior quality, provides interesting work to skilled and creative Canadians, and assists the country to achieve its full potential.

Profit Criteria

Profit prospects commensurate with the investment risks involved are essential. CDC is prepared to be patient, recognizing that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings buildup, but the projects selected should have the prospect of high long-term growth and a superior rate of return on equity.

Earning adequate profits and building strong Canadian-controlled enterprises are not conflicting goals. To dissipate CDC's resources in unprofitable companies rather than investing them in strong and growing enterprises would mean fewer rather than more domestic and international assets under Canadian control in the future, smaller amounts of investor funds at CDC's disposal, less employment and fewer interesting jobs, and missed opportunities to provide growing real wealth and income for Canadians.

Working with Others

CDC does not wish merely to duplicate or to preempt the activities of other Canadian investors. Rather, it wishes to play a part in assembling Canadian strengths and competence to create internationally competitive enterprises, especially in areas where investment opportunities for Canadians have been limited. The Corporation is prepared to play a catalytic role in mobilizing the capital of other investors, both domestic and foreign, in joint ventures which are under Canadian control.

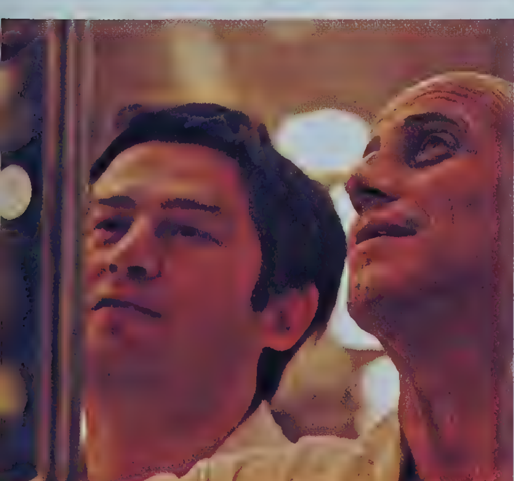
Effective Control

CDC converts the portfolio investments of Canadians, who alone can own its voting shares, into controlling positions in its underlying companies. By maintaining effective control of the companies in which it invests, CDC can take the necessary measures to protect and increase the value of its holdings. However, it does not intend to participate in the day-to-day management of its subsidiary and affiliated vehicle companies, which are expected to have or develop their own skilled staffs and specialized operating personnel. CDC's role, through membership on the Boards and Executive Committees of such companies, is to participate actively in the strategy, development and longer-range planning of such companies so that they will remain innovative and growth-oriented. CDC also gives attention to maintaining appropriate financial controls and good management development policies. If necessary, CDC will play a part in finding new or additional operating management for such companies.

Focussed Effort

CDC does not plan to invest in every field of activity since this would risk scattering its resources too thinly and losing effective control of the underlying assets. However, new activities will be added from time to time and vehicle companies acquired or established in those new fields. It is through these companies that CDC plays a part in developing major and profitable Canadian-controlled projects in its chosen fields of endeavour.

CDC Unconsolidated Review



Accounting standards require a company and companies of which it owns the majority of voting shares to report to its shareholders as a single, complete economic unit by consolidating its financial statements. CDC follows this practice (see page 11), but shareholders may also be interested in CDC's position as a separate corporation. The following table presents some highlights of the Corporation on an unconsolidated basis.

	1975	1974
	(millions of dollars)	
Working Capital	**$ 75.3**	$ 42.1
Investments - at cost	**502.0**	391.8
Share Capital	**564.5**	422.0
Retained Earnings	**17.2**	10.9
Operating Expenses	**1.6**	1.4
Net Income	**15.1**	11.1
Dividends		
— on Class A Shares	**5.8**	4.7
— on Class B Shares	**2.8**	

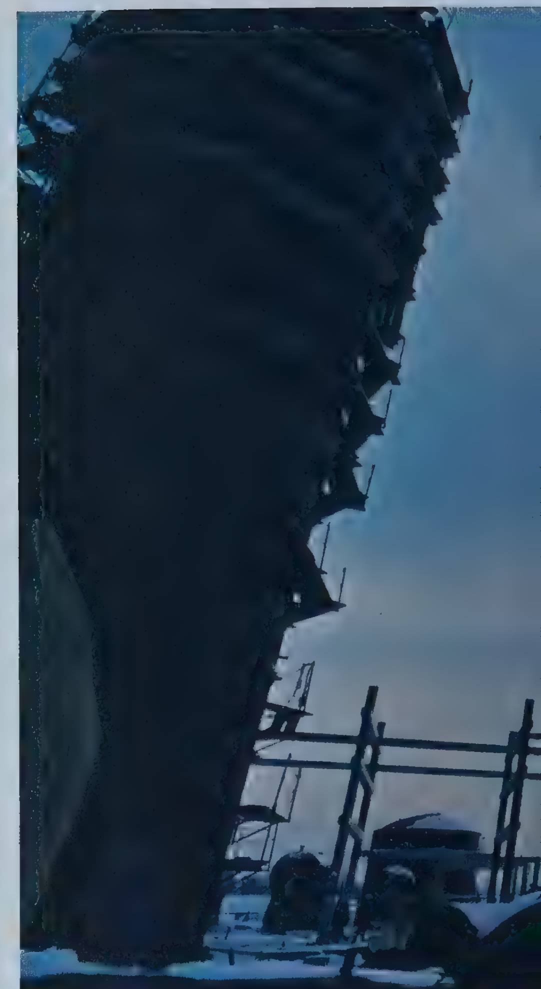
Working capital increased by $33 million in 1975, basically from the balance of proceeds of the Class B preferred share issue, after acquisitions. These funds are invested in short-term bank deposits and commercial paper. The increase in investments at cost in 1975 reflected acquisition of CDC Oil & Gas, the investment in Petrosar, and minor additions to our investment holdings. The increase in share capital of $142.5 million reflects the issue of Class B preferred shares in October 1975.

CDC's unconsolidated income rose by $4.0 million in 1975, the result of higher earnings on short-term investments, and increased dividends and other income received from underlying companies. Expenses rose by $0.2 million to $1.6 million, reflecting increased costs for staff, travel, and shareholder communications. After payment by CDC of dividends on its preferred shares totalling $8.6 million, CDC's own unconsolidated retained earnings rose by $6.3 million. It is the Corporation's present policy to encourage its subsidiary and associated companies to reinvest the major part of their earnings in future growth, rather than adding unnecessarily to the Corporation's own cash balances and retained earnings through large dividend payouts.

The difference between CDC's unconsolidated net income, discussed above, and its net contribution of $0.9 million shown in Note 12 to the Financial Statements, arises because the dividends and other income from underlying companies are treated in Note 12 as contributions by those companies themselves to CDC's consolidated results.

CDÇ is people. Without them we could not prosper. With them we can build a strong Canadian presence in major industries.

Petrochemicals



Polysar Limited

Polysar Limited, CDC's vehicle company in petrochemicals, produces synthetic rubbers, various types of latex, basic chemicals, thermoplastic resins and formed plastic products. Products are sold throughout the world, the North American and European markets being the most important.

Financial

Both sales and net income in 1975 were affected by the environment of recession and inflation. The physical volume of sales declined, but a more advantageous product mix and selective price increases sustained revenue at $388 million, slightly more than 1974. In spite of effective cost controls, operating margins declined because of reduced production and increased costs for energy, materials, wages and services. Net income of $1.6 million was down significantly from the record level of $18.1 million in 1974, after charges of $1.5 million and $13.7 million respectively for the discontinuance of the building systems business.

The trend of earnings since late 1974 has been encouraging. From a $6.0 million loss in the last quarter of that year, income has shown steady improvement to a $3.0 million profit in the final quarter of 1975. This momentum is expected to carry through 1976 with further growth in North America and a gradual recovery in other parts of the industrialized world.

Polysar remains committed to its long-range plans for growth. Capital expenditures were $39.1 million, almost double the 1974 level, with priority going to essential new facilities, plant improvements and environmental protection programmes. Polysar also invested a further $12 million to complete its $20 million equity participation in Petrosar.

Polysar plans to invest $80 million in 1976 and $60 million in 1977 to complete the new styrene plant in Sarnia and to expand its rubber, latex and plastics facilities. In addition, $39 million will be invested in subordinated debentures of Petrosar.

To supplement internal cash generation, additional bank term loans and two major public financings were arranged in 1975—a $50 million preferred share issue in Canada and a $30 million Eurodollar debenture issue. Polysar expects to carry out additional financing in late 1976 or early 1977 to complete the programme.

Rubber

Rubber sales of $222 million accounted for 57% of the company's sales revenue. Sales volume in the first half was 25% below that of 1974, but in the second half of 1975 markets took on a better tone. Polysar held or improved market share in its principal sales areas. General-purpose rubber remained the largest volume item, but Polysar continued development of rubbers for customers' specific technical requirements, focussing on products with higher margins and less sensitivity to economic activity.

Latex

The worldwide recession interrupted the exceptionally high sales growth of recent years and sales were $65 million compared with $66 million in 1974. Demand is expected to improve in 1976 in both North America and Europe, although margins may be temporarily affected by overcapacity and rising costs. Polysar expects improvement in floor covering markets, fine paper applications and other specialty uses, and is adding production capacity in these areas.

Plastics

The three principal plastics groups are: polystyrene resins, with three locations in Canada and the United States; packaging in North America, with four facilities which fabricate products mainly for the food packaging markets; and Bellaplast, one of the largest manufacturers of plastic cups and containers in Western Europe. Sales volume of $82 million was down $6 million from 1974, although improvement was noted as the year progressed; this rising trend is continuing in 1976.

Chemicals

Demand for olefins, aromatics and their derivatives, for both Polysar's internal requirements and outside customers, was depressed in 1975 and production was curtailed. Demand in 1976 is expected to improve markedly and, to meet demands in future years, Polysar decided in May 1975 to build a $90 million, world-scale styrene plant, the construction of which is on schedule.

Other Business

Revenue of Com-Share Limited, Polysar's international computer services group, grew by 60% last year. Higher costs, including those of opening new European markets, kept earnings at about the break-even level. In 1976 the North American and European computers are to be linked by a transatlantic communications system.

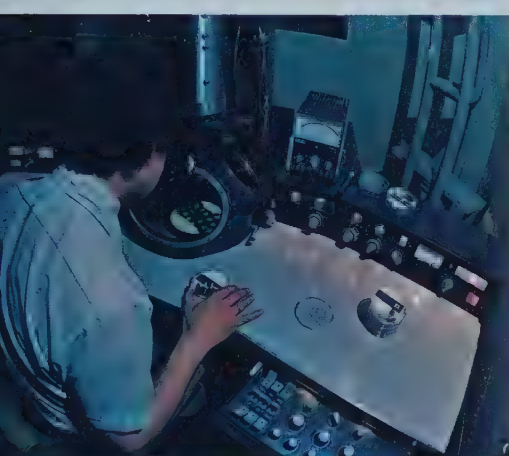
Financial Review	**1975**	1974
	(millions of dollars)	
Total Revenue	**$392.1**	$392.4
Net Income	**1.6**	18.1
Working Capital	**91.7**	84.4
Fixed Assets (Net)	**150.4**	133.0
Long-Term Debt	**93.7**	99.1
Total Assets	**415.5**	398.0

Petrosar Limited

Construction of the project suffered some delay in 1975 due to the shortage of certain skilled trades and a six-week strike during the summer. Some catch-up was accomplished and construction at year-end was about 27% complete, with $200 million expended. Some sections will be started early in 1977 with all units expected to be operating by the middle of that year. Upon completion, the plant will supply needed petrochemicals and fuel products and will enable Polysar to obtain competitively-priced feedstocks.

Petrosar now estimates that its financing needs will be about $575 million compared to the $430 million estimate of a year ago. This reflects rising construction costs, additional working capital and the delay of start-up to mid-1977. It is expected that a major portion of the additional capital requirements will be financed by an increase in loans from the Canadian bank consortium which is providing the bulk of Petrosar's debt financing.

As part of its $25 million commitment to this project, CDC subscribed in late 1975 and early 1976 for $9.9 million of Petrosar common shares. Polysar's ownership interest, formerly 60%, is now 40%; CDC, Du Pont of Canada and Union Carbide Canada each owns 20%.



Continued research and product improvement ensure Polysar a prime international market position. Additional plants are located in Cookshire, Quebec; Cambridge and Lindsay, Ontario; as well as Belgium, France, West Germany and the U.S.A., and sales are made through Polysar offices in sixteen countries and distributors in many others.

Construction is well advanced on two world-scale projects in Sarnia — the new Polysar styrene plant pictured here and the Petrosar crude oil topping and naphtha-cracking complex.

Mining

Texasgulf Inc.

Texasgulf is a major worldwide mining and natural resource company. Metals operations are centred in Canada; agricultural chemicals in the United States, Canada and Mexico; oil and gas in Canada and the United States; and iron ore in Australia.

Financial

Sales were $444.6 million, down 22% from 1974, but net income of $103.2 million was still the second best in the company's history, exceeded only by the previous year. Most of the decrease in sales and earnings occurred in the metals division. To meet future growth for resource products, Texasgulf invested a record $239 million in new facilities.

Metals

Sales of this division were $196 million compared with $291 million the previous year. The decrease was due primarily to significantly lower prices for copper and substantially reduced demand for zinc.

Mining activity at the Kidd Creek mine remained at about the same level as in 1974, with underground operations becoming increasingly important, accounting for more than a third of production compared with about a quarter a year earlier. The production of copper concentrates also remained almost unchanged. Lead and silver production decreased slightly while zinc production was down significantly. The expansion of ore and concentrate production approved in March 1975 proceeded on schedule. This major project is scheduled for completion in late 1978. New facilities completed during the year included a new warehouse, maintenance building and a chemical laboratory.

Site preparation for the new copper smelter and refinery was completed and an agreement signed for the process licence and design. Construction of the first of two 65,000-ton units will commence this spring. A pilot plant for the hydrometallurgical treatment of high silver-lead concentrates began operations. A feasibility study began on a plant to process these concentrates.

Texasgulf has a 35% net profit interest in the first commercial mine in North America north of the Arctic circle. This facility is scheduled to begin producing zinc and lead concentrates in 1976. Texasgulf is considering sinking an exploratory shaft at Half Mile Lake in New Brunswick, where more than 6 million tons of zinc-copper-lead mineralization have been established.

Chemicals

Texasgulf is a major producer of phosphates, potash and sulphur for both agricultural and industrial markets. Sales of the division were $236 million compared with $260 million in 1974 as the worldwide economic recession affected phosphate, potash and sulphur consumption.

At Lee Creek, North Carolina, the production capacity measured as 100% $P_2 0_5$ was increased by 170,000 tons and new facilities for the production of granular triple superphosphate and superphosphoric acid were complete at year-end. Phosphate mining capacity is also being increased.

Production of potash was adversely affected both by weather conditions in Utah and political developments in Saskatchewan. The Saskatchewan reserves tax implemented during the year and that government's plan to expropriate a portion of the potash industry has created a climate of great uncertainty. Texasgulf can and will play a constructive part in expanding the industry in Saskatchewan if a more favourable tax and investment climate is created.

The company's new Frasch sulphur mine in West Texas began production in December, and an older, higher-cost mine in Texas was closed in early 1976. Production at the 34%-owned Texistepec mine in Mexico increased, while Texasgulf's share of production at recovered sulphur plants in Alberta decreased. Construction for the soda ash plant and mine in Wyoming continued, with production expected to begin in 1976. Plans for an ammonia joint venture with Beker Industries were suspended, but other possibilities are being explored.

Oil and Gas

Sales of the oil and gas division increased to $12 million from $9 million in 1974, primarily as a result of increased prices. The company participated in exploratory activity in the Gulf of Mexico, the Alberta foothills and Alaska. New acreage was acquired in both Canada and the United States. Overseas, Texasgulf is participating in 17.8 million gross acres of exploratory land in or off-shore Pakistan, Nicaragua, Senegal and Thailand. Activity in the Malagasy Republic was abandoned.

Work is continuing on the heavy oil project at North Battleford, Saskatchewan using steam injection techniques to recover oil too viscous to flow under normal reservoir conditions; results have been encouraging. In the Provost area of Alberta there are now 64 producing oil or gas wells, and a waterflood project is under way to increase recovery.

Other Activities

Minerals exploration plays a key role at Texasgulf. An important base metals deposit was discovered in 1975 by Texasgulf at Izok Lake in the Northwest Territories. The drilling programme to date indicates over 7 million tons of high-grade mineralization containing copper, zinc, lead and silver; other deposits have been found in the vicinity. Exploratory work in Canada was also undertaken in British Columbia, Newfoundland, Ontario and Quebec. The company also carried out extensive exploratory work in the United States, including a uranium project in Wyoming. Work also continues on locating new sources of sulphur, phosphate and potash.

In February 1976 Texasgulf signed an agreement for development of the Cerro Colorado copper deposit in Panama, probably the largest known undeveloped copper reserve in the world. Texasgulf will conduct a feasibility study for the project, and will have a 20% equity interest and would manage construction and production operations.

Production at the Robe River iron ore deposit in Australia continues to be high. Capacity of the plant was increased and profits for the year were up. Test samples from the Marandoo iron ore deposit, in which Texasgulf has a 50% interest, were tested by Japanese steel mills with good results.

Outlook

Both the metals and chemicals divisions are expected to benefit from improved economic conditions in 1976.

Financial Review	1975	1974
	(millions of U.S. dollars)	
Total Revenue	**$461.7**	$583.8
Net Income	**103.2**	147.3
Income Per Share (Dollars)	**$3.37**	$4.83
Dividend Per Share (Dollars)	**$1.20**	$0.98
Working Capital	**186.5**	192.0
Fixed Assets (Net)	**725.7**	525.2
Long-Term Debt	**227.9**	134.7
Total Assets	**1155.7**	976.9

Mining activities at Kidd Creek are conducted from the open pit — to be phased out this year — and underground to a depth of 2800 feet.

Analyses of ore reserves use highly specialized computer programming, developed and operated by Texasgulf staff at Kidd Creek.

Oil and Gas

CDC Oil & Gas Limited

On December 31, 1975, CDC acquired all the shares of Tenneco Oil & Minerals, Ltd., and all the Canadian oil and gas properties of Tenneco Inc.'s subsidiaries, Kern County Land Company and LaTerre Petroleum of Canada Inc. While Tenneco Inc. kept a 50% working interest in the producing properties then held by Tenneco Oil & Minerals, Ltd., now renamed CDC Oil & Gas Limited, the latter company retains 100% of the former Tenneco exploration lands in Canada. In early 1976, CDC sold the Kern County Land and LaTerre properties to CDC Oil & Gas. The result of these transactions is that CDC Oil & Gas, as a wholly-owned subsidiary of CDC, now owns about 60% of the oil and gas producing properties formerly owned by the Tenneco group in Canada. CDC's cost for these properties was $102.5 million, and a further $8.3 million will be payable on July 30, 1976 for net current assets acquired.

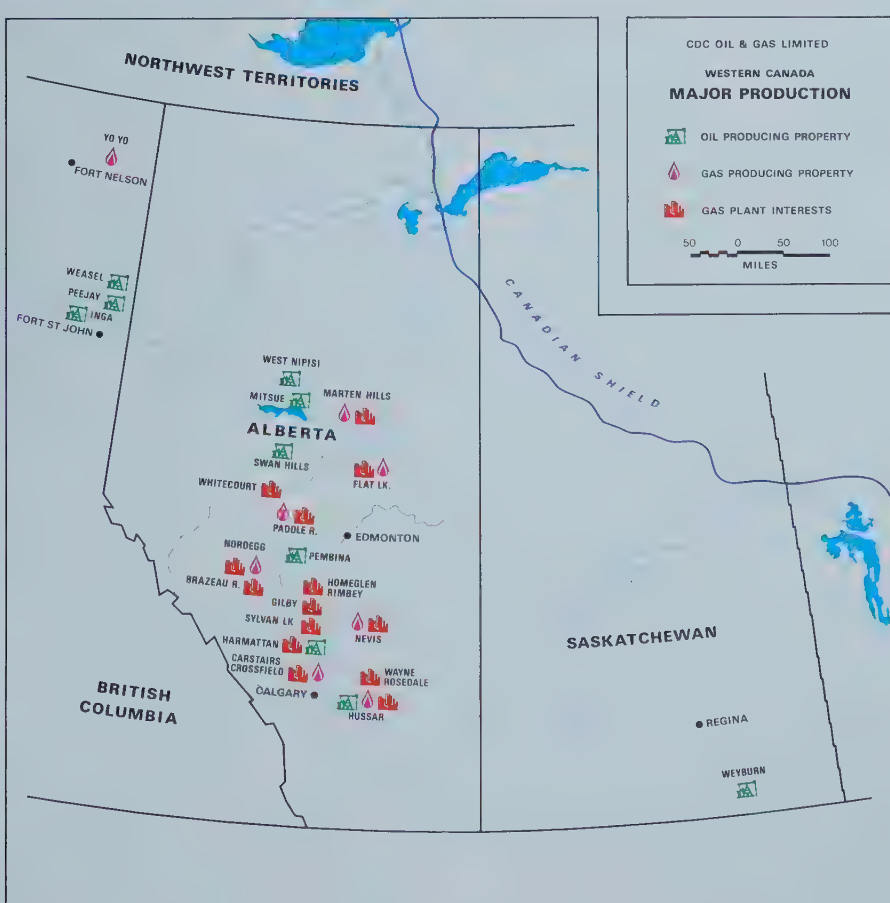
CDC Oil & Gas is based in Calgary and is engaged in the exploration and production of crude oil, natural gas and natural gas liquids. The company has varying working interests in 3,670,757 gross acres of producing properties which contain 93 net oil wells and 56 net gas wells. Approximately 82% of CDC Oil & Gas's 4,000 barrels per day of oil, condensate and natural gas liquids production and 90% of its 37.7 million cubic feet per day of natural gas production come from Alberta fields. Most of the remaining production is from British Columbia, with the balance in Saskatchewan. The major producing properties are located in the Crossfield-Carstairs, Hussar, Swan Hills, Brazeau-Nordegg and Pembina fields of Alberta.

CDC Oil & Gas holds a 51% working interest in a 50,000 acre bituminous tar sands lease located 40 miles northeast of Fort McMurray, Alberta, and about 10 miles east of leases held by other companies which have applications pending for mining and extraction permits. This lease has been thoroughly evaluated and a mining study is presently being completed to determine its potential for production some years hence.

The company is participating in a major expansion of the Paddle River, Alberta, gas processing plant and associated facilities which will serve its substantial but presently shut-in reserves in the Paddle River field. When completed in September 1976, the expanded plant will have a capacity of 73 million cubic feet per day. CDC Oil & Gas' share will be 25.9% and the company's net production is expected to increase at that time by 10 million cubic feet of natural gas and 400 barrels of gas condensate per day.

CDC Oil & Gas has a strong financial position and operating cashflow; the company as now constituted had a cashflow estimated at about $20 million in 1975 before depletion, depreciation, amortization and income taxes. The company has a highly experienced management, production and exploration team and intends to direct a major portion of its future cashflow to finance much more aggressive land acquisition, exploration and drilling programmes. With an inventory of exploration prospects of 1,342,350 gross acres in Alberta, Northeastern British Columbia and Southeastern Saskatchewan, it has already begun to proceed with this expanded exploration programme.

Seismic studies, like these in the foothills of the Rockies, are used to locate geological formations that could yield oil or gas.



This gas plant is one of 16 in which CDC Oil & Gas has an interest. The map indicates the location of plants, and oil and gas wells.

Health Care

Connlab Holdings Limited

1975 was the second full year of operations for Connlab, CDC's vehicle company in health sciences. The company's objective is to develop an internationally competitive Canadian presence in the research, manufacture and sale of biologicals, pharmaceuticals, and related products.

Sales of $82 million in 1975 were 21% ahead of 1974 as A/S Dumex and Omnimedic Inc. each recorded volume growth of 25%. Strength was general through all divisions of Dumex; Omnimedic recovered from a prolonged strike in 1974, although sales were disrupted by the consolidation of operations in one location; and Connaught Laboratories' sales were up 10%.

The group's loss of $2.0 million was disappointing and almost entirely due to under-budget performance at Connaught Laboratories. Connaught's costs of production, research and quality control rose faster than sales volumes and the modest price increases during 1975. The increased loss for the year was partly due to non-receipt of $0.5 million of research grants which had been anticipated. The operating results of the other companies showed significant improvement, although Omnimedic became profitable only in the last few months of the year.

New Products

A flow of new products is vital to success in health science, and all companies in the group introduced new products as well as increasing the number of products available for marketing within the next one to two years.

At Connaught, licensing was completed for Factor IX, used to treat those haemophiliacs who are deficient in this one specific coagulation factor (Christmas disease). Canada can now be self-sufficient in this product.

Clinical trials for Factor VIII, another product used to treat haemophiliacs, are expected to be completed during 1976, and licences for production of new polio and measles vaccines are anticipated during the year.

Connaught is believed to be the only bovine vaccine manufacturer in North America which has always maintained its own isolated, closed herd for collection of serum for the manufacture of vaccines. This is a major contributor to the high quality of its vaccines. A submission has been made to the U.S. Bureau of Biologics to license Bovine Serum (Calf) and (Adult), and production has been increased to make these products available to other manufacturers.

During the year, Omnimedic successfully launched Maxeran, a new product for gastritis therapy, and signed licensing arrangements for a variety of new products from both Europe and Japan. In Scandinavia, Dumex introduced Dumo-Vital, a fibre product to build dietary bulk, and continued laboratory and clinical development on a number of potentially important new products. Connaught's Diagnostics Division also introduced a number of new products as it expanded its activities.

New Markets

Dumex commenced marketing for the first time in Holland and expanded its capabilities in the rapidly-growing Middle East economies. Activities continued with the joint venture companies in the important Brazilian and Mexican markets.

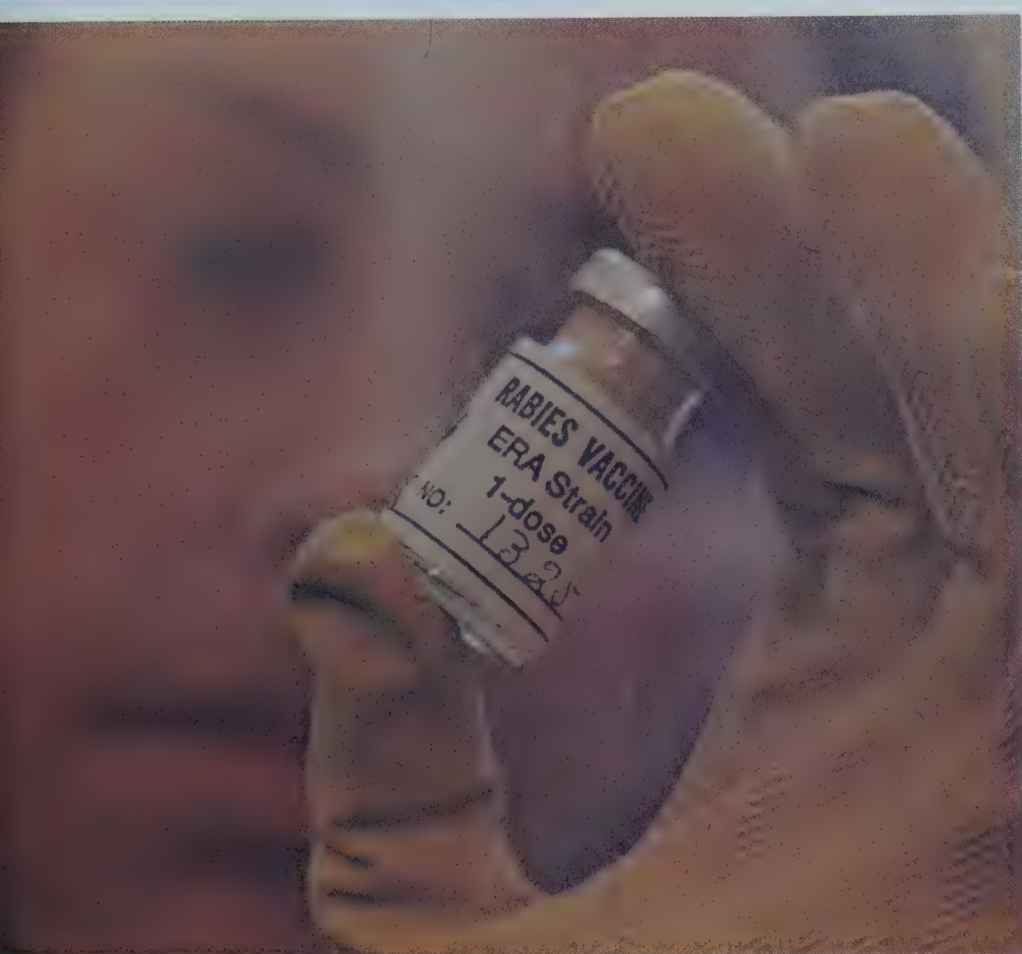
Research

The long-term success of health science companies must be based not only on new products and markets, but on strong research. Research expenditures by the group exceeded $5 million in 1975. Raylo Chemicals Limited continued its basic research in the discovery and synthesis of new antibiotics, while topical application of a Connaught product, PPD Tuberculin, to skin cancer therapy has been undertaken as a collaborative study between Connaught and a major research institute in the United States. Preliminary results are most encouraging. Work is also being done on the cultivation of beta cells for the production of insulin in vitro. The results achieved have placed Connaught on the threshold of a possible important advance, although it may be years before such a laboratory achievement can be converted to a useful aid to the world's diabetics.

Outlook

Progress in the areas of new product development and market expansion, coupled with actions to improve cost controls, particularly at Connaught, should lead to improved sales and earnings in 1976.

Financial Review	**1975**	1974
	(millions of dollars)	
Total Revenue	**$83.8**	$69.6
Contribution	**(2.0)**	(0.3)
Working Capital	**8.0**	11.0
Fixed Assets (Net)	**33.8**	32.1
Long-Term Debt	**13.1**	10.3
Total Assets	**89.8**	83.2



Connaught Laboratories' products include insulin for diabetics; human biologicals like smallpox, polio, and rabies vaccines; diagnostic agents for the detection of tuberculosis; and the diphtheria, pertussis and tetanus vaccines, shown in the photograph, for the inoculation of young children. Veterinary products, like the rabies vaccine pictured, are also produced by Connaught which has over 40 years of distinguished service in this field.

The electron microscope aids research and product development.

Venture Capital

The CDC is associated with the largest pool of venture capital in Canada as the biggest shareholder in three leading venture capital companies: Venturetek International Limited of Toronto, Ventures West Capital Ltd. of Vancouver, and Innocan Investments Ltd. of Montreal.

The objective of all three companies is to provide capital to business ventures in the conceptual or early development stage which have substantial potential for earnings growth over the longer term. Each company is managed by its own autonomous management group which has an equity interest in that company. The financial institutions and private investors with whom CDC is a partner are represented on each company's Board of Directors.

CDC's earnings from venture capital, as anticipated, are still modest. Venture capital is by definition a high risk business, often taking more than five years to determine ultimate success. The companies have had some outstanding successes such as Venturetek's PoP Shoppes investment, but there have also been failures, so far fortunately of minor significance, which have been written off.

Venturetek International Limited

Founded in 1969, Venturetek has investments in seven companies employing over 2,400 people in Canada, the United States and the United Kingdom. The CDC made its initial investment in Venturetek during August 1972, and at December 31, 1975, held a 32% interest which cost \$4.7 million.

Venturetek's preliminary consolidated statements for 1975 showed total assets of \$58 million, working capital of \$5.8 million and shareholders' equity of \$15.2 million. Sales increased to \$49 million from \$36 million the previous year, and net profit increased to \$2.1 million, compared with \$1.5 million. Major holdings, with percentage ownership in brackets, are shown below.

Conat Industries Limited, (77.8%), develops blue-flame oil combustion systems and manufactures environment control systems. Conat has reported operating losses and only modest sales since acquisition.

Gestalt International Limited, (54.0%), produces a unique mapping instrument to make orthophotographs automatically, and markets worldwide through service centres and two subsidiaries in the aerial surveying and geophysical exploration business. Gestalt's sales increased by about one-third to \$10 million during 1975, but a loss of \$0.3 million was incurred compared with the \$0.7 million profit reported in 1974, due to technical and production problems.

Hermes Electronics Limited, (74.0%), of Dartmouth, Nova Scotia, the largest manufacturer of ocean engineering products in Canada, began construction on a \$10-million sonobuoy plant which will consolidate operations from four locations and provide for expansion. The company secured the Phase I contract for the Canadian Ocean Data System providing an opportunity for exploitation of its unique technology in deep-moored ocean systems. During 1975, Hermes' sales rose to \$12.4 million and earnings exceeded \$0.2 million.

McPhar Instrument Corporation, (51.0%), which designs and manufactures geophysical instruments, has reorganized and moved to a new plant since Venturetek acquired control in 1975. Sales were approximately \$0.5 million, a break-even level.

PoP Shoppes International Inc., (56.0%), had 34 company-owned and franchised PoP Shoppes in operation at the end of 1975, supported by 420 satellite depots. Sales rose from \$8.8 million to \$13.7 million and net profit increased from \$0.9 million to \$1.4 million.

STAKE Technology Ltd., (60.0%), is a company founded on a new technology for the conversion of ligno-cellulosic materials such as wood and straw into cattle feed. Venturetek acquired a controlling interest in this company in September 1975. STAKE is now testing its process in an improved pilot plant and hopes to complete its first full-scale commercial test during 1976.

Ventek International Inc., (90.0%), develops, markets and installs small-scale data processing systems and has recently introduced its own line of word processing equipment. The Ventek group's sales increased by almost 50% to \$12 million in 1975, and earnings were just under \$1 million.

Ventures West Capital Ltd.

Ventures West is based in Vancouver and makes venture capital investments in Western and Northern Canada. On its formation in 1973, the CDC invested \$2.2 million of Ventures West's initial \$4.2 million subscribed capital and holds 49% of the voting stock.

The company has so far invested and committed approximately \$1.3 million in natural resource exploration and about \$0.8 million in export-oriented manufacturing industries. During 1975, Ventures West earned \$0.2 million.

In natural resources, Ventures West is a 41% shareholder in Frio Oil Ltd., whose oil and gas properties are principally in northeastern British Columbia. Ventures West also has interests in several mineral exploration ventures focussed principally on the Yukon and Northwest Territories. One of these, which Ventures West originated and is managing, is a pioneer programme using processed information obtained from the "Landsat" earth resource satellites.

In manufacturing, Ventures West has a 9% interest in Foremost International Industries Ltd., a Calgary producer of large off-highway vehicles suitable for Arctic, muskeg and desert use. Foremost, over 90% of whose vehicles are exported, had 1975 sales of \$17.2 million, double the 1974 level, while earnings before tax rose to \$3.8 million from \$0.7 million. Ventures West has a controlling interest in Controlled Environments Ltd. of Winnipeg, which produces research growth chambers. Revenues, including substantial exports sales, are expected to be about \$2.4 million in the current fiscal year. Ventures West also controls A. Freen Ltd. of Vancouver which has developed a new rear projection screen with high visibility under daylight viewing conditions.

Innotech Aviation has sales, maintenance and servicing facilities for aircraft located in Montreal, Vancouver, Calgary, Toronto and St. John's.

This automobile radio-telephone unit and two-way mobile radios are manufactured by International Systcoms of Montreal.

This highly nutritious and inexpensive food material for livestock is produced from cellulose waste by STAKE Technology, an Ottawa-based company. The material pictured is pelletized before sale.

PoP Shoppes are retailers of soft drinks directly to consumers from factory stores, or satellite depots.

Innocan Investments Ltd.

Innocan Investments Ltd. commenced operations in May 1973 with initial capital of $9.2 million, at which time CDC acquired a 40% interest for $3.7 million.

Innocan has expanded rapidly and by the end of 1975 had invested over $6 million in ten companies. Innocan's consolidated sales in 1975 more than doubled to $24.5 million, although earnings were negligible because several of its companies were at an early stage of development or reorganization. Among its major holdings are:

AES Data Ltd., (82.0%), is a company which developed and markets the AES-90 word processor and a line of teleprotection equipment for the power utility industry. This company, purchased from receivership in late 1974, was substantially reorganized during 1975 and consequently incurred a loss of $0.4 million. Sales are now expanding rapidly from their 1975 level of $2.3 million with new export distribution and financing arrangements completed.

Coroplast Ltd., (55.0%), is a manufacturer of corrugated plastic packaging material with a new plant completed in Granby, Quebec, in late 1975.

Cybermedix Limited, (22.2%), is a company with 49 laboratories offering testing and health screening programmes in Ontario and Quebec. Cybermix' gross revenues increased by 55% during 1975 to $6.2 million, with net income rising by over 40% to about $0.4 million.

InnoPoP Beverages Ltd., (85.0%), owns the PoP Shoppe franchise for the Province of Quebec, and has been substantially reorganized and expanded since acquisition in 1974. Sales more than doubled during 1975 to $1.3 million, a break-even level.

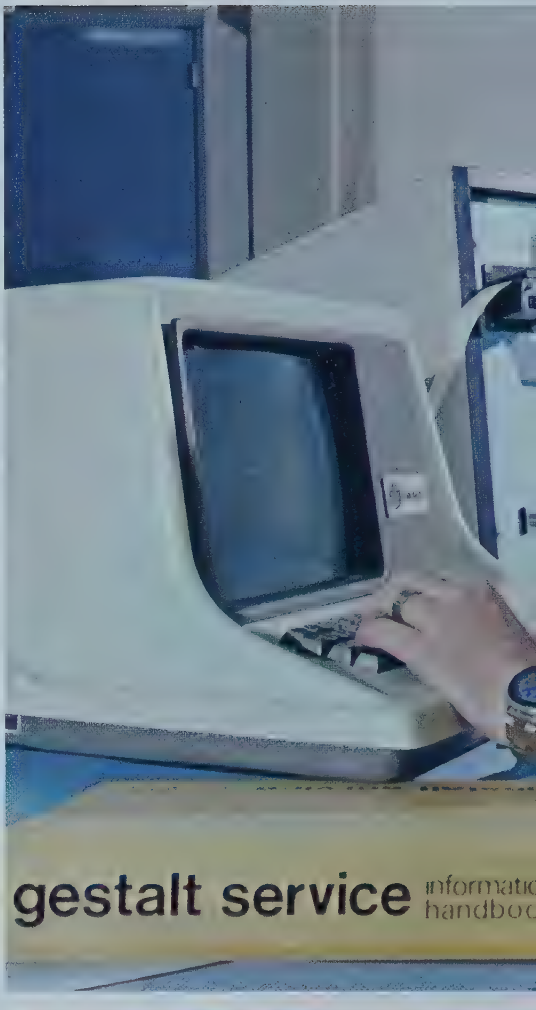
Innotech Aviation Limited, (66.7%), is the largest and most diversified aviation sales, maintenance and support organization in Canada. Innotech's sales rose by almost 25% to the $12.5 million level, but earnings decreased from $0.3 million to about $0.1 million because of an overhaul contract cancellation in the early part of the year.

International Systcoms Ltd., (32.3%), manufactures portable and automobile radio telephones and two-way mobile radios. Sales rose to $5.3 million in 1975 and net profit was about $0.3 million.

Laurentian Concentrates Limited, (56.0%), is a Quebec manufacturer of protein and aqueous film foams used to extinguish oil-base fires, whose 1975 sales exceeded $1.5 million and net income was about $0.2 million.

Sentrol Systems Ltd., (74.0%), was incorporated in late 1974 to carry on the business of Electronic Associates, then in receivership. The company designs and manufactures electronic sensing and control equipment, primarily for the pulp and paper industry. Sentrol's operations improved dramatically in 1975, following reorganization, and sales and profits reached $6.6 million and $0.4 million respectively.

Vulcan Industrial Packaging Limited, (18.9%), is a manufacturer of metal containers, metal decorations and wire products, whose 1975 sales increased to $12.8 million from $11.5 million and net income rose from $0.7 million to almost $0.9 million.

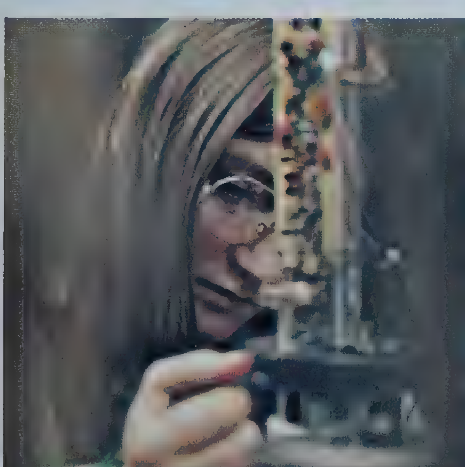


Gestalt International of Vancouver has designed and developed a sophisticated method of photo-map production.

Part of the detailed mapping and surveying services provided by Northway Survey in Toronto, a subsidiary of Gestalt, in Canada and around the world.

Manufacturing oceanographic equipment at Hermes in Dartmouth, Nova Scotia.

Pipelines



Over the past several years, the Arctic Gas consortium has been conducting ecological, social, engineering and economic studies supporting its application to build and operate a large pipeline system to combine and transport natural gas from Alaska and the Mackenzie Delta to markets in southern Canada and the United States. The capital cost of the Canadian section of this project is presently estimated at $7.5 billion.

Decisions by regulatory authorities after public hearings in both Canada and the United States are not expected for many months. Competing applications have been filed for separate delivery systems by El Paso Alaska Company in the U.S. and by Foothills Pipelines Ltd. in Canada.

By the end of 1975, the Arctic Gas consortium had spent over $100 million on its project and CDC's share of these costs amounted to $3.8 million. At the end of October, the CDC became an associate rather than a full member of the consortium. As a result, CDC is no longer responsible for a pro-rata share of current consortium expenses, but has the right to non-voting representation at Arctic Gas meetings. Unlike the remaining 15 full members of the consortium, CDC is not a prospective supplier or purchaser of Arctic gas.

It should be emphasized that this change in status did not affect CDC's indication of provisional interest, given in April 1975, to subscribe for $100 million of the project's equity securities. This indication of interest was subject to certain conditions as to timing, financial attractiveness, and Canadian private sector control of the project. With the delays in regulatory hearings, CDC will consider extending the timing conditions.

Natural gas from wells in Arctic regions of the Northwest Territories, and Alaska will need to be moved by pipeline to North American markets. The Arctic Gas Consortium has tested the environmental effects of a gas transmission pipeline at Arctic sites.

Selected Share Data

Distribution of Class B Preferred Shareholders.
(including subscribers under Instalment Purchase Plans)

Location	Shareholders Number	Shareholders Per cent	Shares Number	Shares Per cent
British Columbia	2,441	13.8%	102,463	7.1%
Alberta	1,472	8.3%	53,498	3.7%
Saskatchewan	603	3.4%	17,682	1.2%
Manitoba	651	3.7%	72,548	5.0%
Ontario	9,660	54.7%	954,198	66.3%
Quebec	1,624	9.2%	191,688	13.3%
New Brunswick	525	3.0%	22,170	1.5%
Nova Scotia	487	2.7%	20,442	1.4%
Prince Edward Island	92	0.5%	2,442	0.2%
Newfoundland	52	0.3%	2,392	0.2%
Territories	22	0.1%	283	—
Outside Canada	49	0.3%	985	0.1%
Total:	**17,678**	**100 %**	**1,440,791**	**100 %**

Note: It is estimated that shares held in the name of trust companies, brokers or other nominees represent holdings by an additional 3500 beneficial shareholders.

CLASS A PREFERRED SHARES

Transfer Agent and Registrar

The Corporation at its Vancouver and Toronto offices.

Dividend Dates

A dividend at the rate of 5¾% per annum is payable quarterly on the first of January, April, July, and October.

CLASS B PREFERRED SHARES

Transfer Agent and Registrar

National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

Dividend Dates

A dividend of $2.00 per share is payable quarterly on the first of January, April, July, and October.

Bonus Common Shares and Conversion

Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to the holder of record on October 1, 1980, and the second to the holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

Listings (Ticker symbol: CDC Pr B)

Vancouver Stock Exchange
Alberta Stock Exchange
The Winnipeg Stock Exchange
The Toronto Stock Exchange
Montreal Stock Exchange

Trading

The Class B preferred shares were first called for trading on the above stock exchanges on November 20, 1975, and the number of shares traded from that date to December 31, 1975 amounted to 25,875 with a high of $97 3/8 and a low of $94 7/8.

COMMON SHARES

Transfer Agent and Registrar

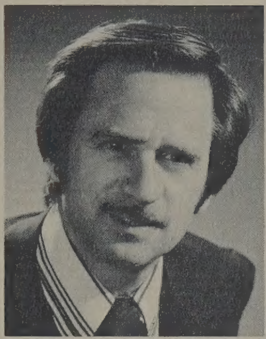
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

Dividends

The Corporation did not pay dividends on its common shares during 1975. Forty-eight common shares were issued during the year on the conversion of four Class B Preferred Shares.

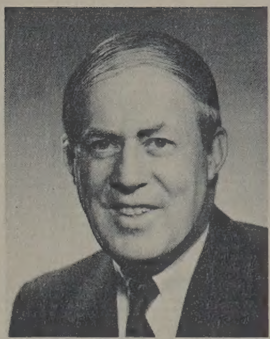
HEAD OFFICE: 1860 Granville Square, 200 Granville Street, Vancouver, British Columbia, V6C 1S4

Board of Directors

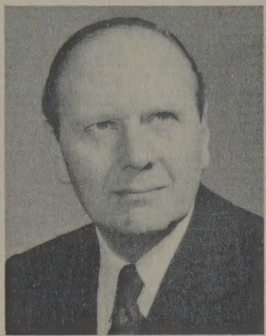


Philippe de Gaspé Beaubien
President
Télémédia Communications
Ltée
Montreal, Quebec

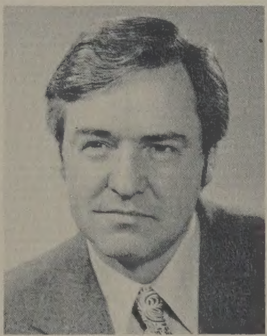
Laurent Beaudoin
President
Bombardier Limited and
MLW-Worthington Ltd.
Valcourt, Quebec



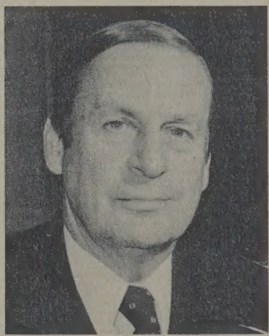
Rodolphe B. Casgrain
President
Casgrain & Company
Limited
Montreal, Quebec



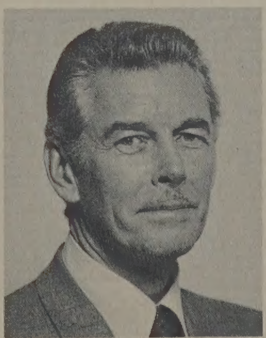
Pierre Côté
President
Laiterie Laval Limitée
Quebec, Quebec



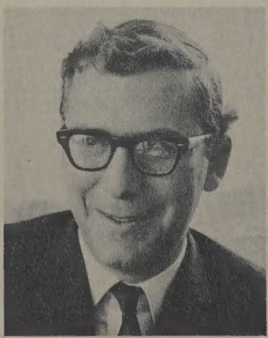
Louis R. Desmarais*
Chairman of the Board
Canada Steamship Lines
1975 Limited
Montreal, Quebec



A. John Ellis*
Chairman of the Board of the
Corporation
Vancouver, British Columbia



J. P. Gallagher*
Chairman and Chief
Executive Officer
Dome Petroleum Limited
Calgary, Alberta



H. Anthony Hampson*
President and Chief
Executive Officer of the
Corporation
Toronto, Ontario

Gordon F. Hughes
President
Ocean Company Limited
Windsor, Nova Scotia

LITHO'D IN CANADA